

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 04881 01 OF 03 171649Z

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-07 FRB-03

INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00

CIEP-01 LAB-04 SIL-01 AGRE-00 OMB-01 XMB-02 STR-04

ERDA-05 DODE-00 FEAE-00 FPC-01 H-01 INT-05 L-03

NSC-05 PM-04 OES-06 SS-15 ACDA-07 /137 W

-----171717 080658 /40

O 171637Z FEB 77

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 5377

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 04881

E FOR COOPER; EUR FOR HARTMAN AND ALBRECHT; EB FOR KATZ
AND BOEKER

PASS TREASURY FOR SOLOMON AND BERGSTEN; CEA FOR
SCHULTZE

E.O. 11652: N/A

TAGS: OECD, ECON

SUBJECT: OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION

(XCSS): SUMMARY OF SECRETARIAT NOTE ON GLOBAL
APPROACH

REF: OECD PARIS 4804

1. SUMMARY AND INTRODUCTION: THIS CABLE SUMMARIZES
(FROM NEARLY FINAL DRAFT) SECRETARIAT PAPER FOR XCSS
ITEM "ECONOMIC RELATIONS BETWEEN MEMBER COUNTRIES:
A GLOBAL APPROACH". THIS PAPER SEEKS TO CONCENTRATE
XCSS DISCUSSION ON INTERRELATIONS AMONG INDIVIDUAL
PROBLEMS RELATED TO THE OECD MID-TERM ECONOMIC
STRATEGY. AS MISSION REPORTED IN REFTEL, SECRETARY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04881 01 OF 03 171649Z

GENERAL SEES XCSS TOGETHER WITH EPC AND WP-3 AS ALL
EXPLORING THESE INTERLINKAGES FROM THEIR PARTICULAR
PERSPECTIVES. SEPTELS SUMMARIZE PAPERS FOR EPC AND
WP-3. THE STATED OBJECTIVE FOR THE XCSS DISCUSSION
IS TO HELP PREPARE AN OVERALL ASSESSMENT FOR THE OECD
MINISTERIAL OF THE AREAS IN WHICH THE SUCCESSFUL IM-
PLEMENTATION OF THE MID-TERM STRATEGY WOULD REQUIRE

AN ADJUSTMENT OF NATIONAL POLICIES OR A CLARIFICATION
AND STRENGTHENING OF THE UNDERSTANDINGS AMONG MEMBER
COUNTRIES ON OBJECTIVES AND METHODS. END SUMMARY
AND INTRODUCTION.

2. AFTER THE OPENING SECTION OF THE PAPER, IN WHICH
THE MID-TERM STRATEGY IS BRIEFLY DESCRIBED AND
OBSTACLES WHICH HAVE DEVELOPED IN THE LAST SIX MONTHS
TO ITS EFFECTIVE IMPLEMENTATION ARE MENTIONED, THE
PAPER PRESENTS THE ISSUES IN TERMS OF SIX GENERAL
CATEGORIES INTO WHICH THE REMAINDER OF THE PAPER IS
ORGANIZED. THESE SIX CATEGORIES ARE:

- (1) GROWTH AND PRICE STABILITY
- (2) BALANCE OF PAYMENTS ADJUSTMENT AND FINANCING
- (3) TRADE POLICY
- (4) COOPERATIVE ACTION ON SECTORAL PROBLEMS
- (5) ENERGY
- (6) FINANCIAL COOPERATION WITH THE DEVELOPING
COUNTRIES

3. GROWTH AND PRICE STABILITY

THE NOTE PROPOSES THAT THE XCSS DISCUSSION OPEN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 04881 01 OF 03 171649Z

WITH A REPORT ON THE EPC DISCUSSION, WHICH WILL HAVE
TAKEN PLACE. THE NOTE THEN DESCRIBES THE OVERALL
ECONOMIC SITUATION (NATURALLY IN LESS DETAIL THAN IN
THE EPC PAPERS) AS INVOLVING THE FOLLOWING FACTORS:

- (A) THE INFLATION RATE HAS BEEN ABOUT HALVED
TO BELOW 8 PERCENT IN THE SECOND HALF OF 1976,
BUT THE EXPECTATION IS THAT IT WILL STAY IN
THAT RANGE IN 1977.
- (B) THE RATE OF GROWTH HAS SLOWED IN THE
SECOND HALF OF 1976 AND THE LIKELIHOOD IS THAT
GROWTH WILL IN THE COMING YEAR REMAIN BELOW
THE TARGET RATE FOR THE MID-TERM STRATEGY.
- (C) THESE DEVELOPMENTS REFLECT CAUTIOUS EX-
PANSIONARY POLICIES IN THE STRONGER COUNTRIES
AS WELL AS THE ECONOMIC CONSTRAINTS IN THE
ECONOMICALLY WEAKER ONES.

(D) UNEMPLOYMENT HAS STARTED TO RISE AGAIN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 04881 02 OF 03 171653Z
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00
AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-07 FRB-03
INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00
CIEP-01 LAB-04 SIL-01 AGRE-00 OMB-01 XMB-02 STR-04
ERDA-05 DODE-00 FEAE-00 FPC-01 H-01 INT-05 L-03
NSC-05 PM-04 OES-06 SS-15 ACDA-07 /137 W
-----171716 080768 /43

O 171637Z FEB 77

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 5378

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 04881

AND COULD GO ABOVE THE PREVIOUS 5 1/2 PERCENT
HIGH.

(E) THE LONGER DEMAND CONTINUES SLACK
THE MORE BUSINESS INVESTMENT WILL BE DISCOURAGED.

THE NOTE CONCLUDES THIS SECTION BY CALLING FOR
MODERATE STIMULUS IN SOME MEMBER COUNTRIES (WHICH
WOULD EASE PROTECTIONIST PRESSURES AND BALANCE OF
PAYMENTS DIFFICULTIES), FOR CONTINUED PRUDENCE TO
AVOID REKINDLING INFLATIONARY PRESSURES, AND FOR
SELECTIVE AND SECTORAL POLICIES TO REDUCE THE RISKS
OF UNFORESEEN COST OR PRICE SHOCKS, TO INCREASE THE
EMPLOYMENT CONTENT OF ANY GIVEN INCREASE IN OVERALL
DEMAND, AND TO ENSURE THAT TAX, REGULATORY, AND
OTHER PUBLIC MEASURES BE FRAMED IN SUCH A WAY AS TO
MINIMIZE THEIR INFLATIONARY EFFECTS.

4. BALANCE OF PAYMENTS ADJUSTMENT AND FINANCING
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04881 02 OF 03 171653Z

WHILE IN AGGREGATE GLOBAL TERMS THE OIL DEFICIT LOOKS MANAGEABLE IT IS LESS SO IF SEEN FROM A DIS-AGGREGATED POINT OF VIEW. THE NOTE CONTRASTS THE POSITION OF SIX STRONG CURRENCY OECD COUNTRIES WHICH HAVE RUN A CUMULATIVE SURPLUS OF ABOUT 40 BILLION DOLLARS WITH THE SITUATION OF A GROUP OF WEAKER OECD COUNTRIES WHO HAVE BEEN RUNNING A 90 BILLION DOLLAR DEFICIT. FOR THE YEAR AHEAD, OECD FORECASTS A SURPLUS OF 5 BILLION FOR THE SIX STRONG COUNTRIES AS AGAINST A DEFICIT OF 20 BILLION FOR THE GROUP OF WEAK COUNTRIES. THE RELATIVE EXTERNAL FINANCIAL POSITIONS OF COUNTRIES SINCE THE OIL PROBLEM DEVELOPED HAS REMAINED QUITE CONSTANT, A SITUATION WHICH IS NOT SUSTAINABLE. A SUSTAINABLE PATTERN WOULD REQUIRE A REDISTRIBUTION OF THE DEFICIT ENTAILING STRICT DOMESTIC POLICIES IN THE CHRONIC DEFICIT COUNTRIES AND READINESS IN THE STRONG COUNTRIES TO SEE A REASONABLY RAPID INCREASE IN DOMESTIC DEMAND. THIS WOULD HELP THE WEAKER COUNTRIES BY ENCOURAGING EXPORT LED GROWTH, WOULD REDUCE PROTECTIONIST PRESSURES AMONG THEM, AND WOULD ALSO BENEFIT THE NON-OIL PRODUCING LDCS.

AS A SEPARATE POINT THE SECRETARIAT NOTES THAT WHILE FINANCING HAS BEEN ARRANGED RATHER WELL UNTIL NOW, THE SITUATION MAY BE INSECURE IN THE FUTURE. THIS SITUATION RAISES THE DANGER OF POSSIBLE TRADE OR CAPITAL RESTRICTIONS, OR COMPETITIVE MANIPULATION OF EXCHANGE RATES BY COUNTRIES WHOSE FINANCING PROSPECTS ARE DOUBTFUL, ACTIONS WHICH COULD RESULT IN A CYCLE OF RETALIATORY MEASURES BY OTHERS. THUS THE NEED FOR THE FINANCIAL SUPPORT FUND HAS INCREASED, AND THERE IS ALSO A NEED TO STRENGTHEN THE IMF BY ADDING TO ITS LIQUIDITY.

5. TRADE: PAPER SUGGESTS XCSS WILL WISH TO TAKE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 04881 02 OF 03 171653Z

STOCK OF SITUATION REGARDING THE FUTURE OF THE TRADE PLEDGE AGAINST THE BACKGROUND OF INTERLOCKING QUESTIONS OF GROWTH, PRICE STABILITY, BOP ADJUSTMENT AND FINANCING, AND SECTORAL PROBLEMS. NOTING THAT THE PAUSE IN ECONOMIC RECOVERY HAS REDUCED GROWTH IN WORLD TRADE AND THAT BOP ADJUSTMENT HAS PROCEEDED SLOWLY, THE SECRETARIAT SEES SIGNS OF RISING EFFORTS TO LIMIT

INTERNATIONAL COMPETITION, CHARACTERIZED BY EXCESSIVE
FOCUSSING ON BILATERAL TRADE BALANCES AND PRESSURE BY
INDUSTRIAL INTERESTS FOR SPECIAL PROTECTION. PAPER
SUGGESTS THAT BEST DEFENSE AGAINST RESTRICTIONS ON
TRADE AND CURRENT ACCOUNT TRANSACTIONS WILL BE REASON-
ABLY EXPANSIONARY CLIMATE IN OECD AREA AS WHOLE AND
PROGRESSIVE REDUCTION OF STRIKING DIVERGENCES IN
PERFORMANCE BETWEEN INDIVIDUAL COUNTRIES. IT STRESSES
IN ADDITION, HOWEVER, THAT THERE IS NO LESS NEED NOW TO
FORESTALL THE THREAT POSED TO GROWTH AND PRICE STABILITY
BY RESTRICTIVE TRADE PRACTICES THAN THERE WAS IN 1974

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 04881 03 OF 03 171706Z
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00
AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-07 FRB-03
INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00
CIEP-01 LAB-04 SIL-01 AGRE-00 OMB-01 XMB-02 STR-04
ERDA-05 DODE-00 FEAE-00 FPC-01 H-01 INT-05 L-03
NSC-05 PM-04 OES-06 SS-15 ACDA-07 /137 W
-----171716 080838 /43

O 171637Z FEB 77

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 5379

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 04881

WHEN THE TRADE PLEDGE WAS ADOPTED, AND MENTIONS THE
POTENTIAL FOR RETALIATION WHEN UNEMPLOYMENT IS HIGH
EVERYWHERE.

6. SECTORAL PROBLEMS. SECRETARIAT OBSERVES THAT
DIFFICULTIES ENCOUNTERED BY CERTAIN INDUSTRIAL SECTORS
AS ECONOMIC RECOVERY HAS FALLEN BEHIND SCHEDULE HAVE
BEEN ONE OF MAIN SOURCES OF GROWING PROTECTIONIST
PRESSURES, AND PROPOSES XCSS MAY WISH TO REVIEW THE
ADEQUACY OF EXISTING ARRANGEMENTS TO DEAL WITH
SECTORAL PROBLEMS. PAPER DIVIDES THESE INTO THREE

DIFFERENT CATEGORIES. FOR SHIPBUILDING, AIRCRAFT, AND STEEL, MAIN PROBLEM IS OVER-INVESTMENT AND CHANGES IN COMPOSITION OF FINAL DEMAND, AND BEST APPROACH IS THROUGH COOPERATIVE ACTION OF OECD MEMBER COUNTRIES. FOR TEXTILES, FOOTWEAR, MOTOR VEHICLES, AND ELECTRICAL APPLIANCES, UNDERLYING CHANGES IN COMPARATIVE ADVANTAGE BETWEEN HIGH AND LOW-WAGE COUNTRIES SEEM TO BE THE ROOT OF THE TROUBLE. THE MAIN NEED HERE IS FOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04881 03 OF 03 171706Z

ENERGETIC ADJUSTMENT POLICIES WITHIN THE FRAMEWORK OF A MULTILATERAL UNDERSTANDING OF THE DESIRABILITY OF PROVIDING EXPANDING EXPORT MARKETS FOR LDC'S. FOR A THIRD GROUP OF INDUSTRIES (SOME NON-FERROUS METALS, PULP AND PAPER, BASIC CHEMICALS), PROBLEM IS ONE OF INSUFFICIENT INVESTMENT STEMMING FROM ECONOMIC AND POLITICAL RISK FACTORS, HIGH UNIT COSTS, AND LONG LEAD TIMES. IN THESE SECTORS, SUDDEN ACCELERATION OF FINAL DEMAND COULD RUN INTO SUPPLY BOTTLENECKS AND LEAD TO EXPORT RESTRICTIONS. SECRETARIAT SUGGESTS THERE MAY BE A NEED HERE FOR COOPERATIVE ACTION TO REDUCE THE RISK OF LONG-TERM INVESTMENT IN POLITICALLY INSECURE AREAS AND IMPROVE THE AVAILABILITY OF FINANCING AND RISK CAPITAL. IN ADDITION IT IS PROPOSED SOME ATTENTION BE GIVEN TO THE SALUTARY EFFECT WHICH COMMODITY POLICIES AIMING AT INCREASING MARKET STABILITY AND REDUCING INFLATION WOULD HAVE ON SUCH INDUSTRIES.

7. ENERGY: PAPER NOTES THAT REDUCTION OF OECD VULNERABILITY TO FURTHER INCREASES IN WORLD OIL PRICES HAS NOT PROCEEDED RAPIDLY ENOUGH AND THAT FURTHER STRONG MEASURES ARE REQUIRED. IT IS SUGGESTED THAT SUCH ACTION WOULD GIVE AN APPRECIABLE BOOST TO THE CONFIDENCE NEEDED TO UNDERPIN FUTURE ECONOMIC EXPANSION.

8. FINANCIAL COOPERATION WITH LDC'S: CHARACTERIZING THE CURRENT FINANCIAL PROBLEMS OF THE NON-OIL LDC'S AS SERIOUS BUT MANAGEABLE, SECRETARIAT CAUTIONS THAT AVOIDANCE OF LARGE SCALE DEBT RESTRUCTURING WILL DEPEND ON EFFECTIVE LDC DOMESTIC POLICIES, IMPROVED EXPORT PROSPECTS, AND ADEQUATE EXTERNAL FINANCING FACILITIES. PAPER SUGGESTS XCSS MAY WANT TO DISCUSS SCOPE FOR STRENGTHENED COOPERATION WITH LDC'S IN CONTEXT OF GENERAL ECONOMIC AND FINANCIAL SITUATION. PROSPECTS OF POORER LDC'S WILL DEPEND CRITICALLY ON INCREASED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 04881 03 OF 03 171706Z

ODA FLOWS AND BETTER EXPORT PROSPECTS, WHILE FOR THE MIDDLE-INCOME LDC'S IT IS IMPORTANT TO CONSIDER POSSIBILITIES FOR INCREASING LONG-TERM DEVELOPMENT FINANCING. SPECIFIC SUGGESTIONS INCLUDE INCREASING THE LENDING CAPACITY OF THE WORLD BANK, BETTER ACCESS TO DC CAPITAL MARKETS, AND MEASURES TO PROMOTE DIRECT INVESTMENT. EXPLORATION OF POTENTIAL FOR MORE DIRECT FINANCIAL COOPERATION WITH THESE COUNTRIES (COFINANCING AND TRILATERAL ARRANGEMENTS WITH OPEC, GOVERNMENT GUARANTEES AND DIRECT LOANS) IS ALSO ADVOCATED. PAPER NOTES THAT OECD HAS IN PAST REJECTED IDEA OF LINK BETWEEN AID FLOW DECISIONS AND BOP ADJUSTMENT NEEDS, BUT SUGGESTS THAT IN PRESENT CIRCUMSTANCES STRONGEST COUNTRIES SHOULD MAKE SPECIAL EFFORTS TO INCREASE AID FLOWS OR, AS A MINIMUM, SHOULD NOT BE AMONG THE LAGGARD IN GIVING AID. SUCH ACTION, IT IS ARGUED, WOULD HELP LDC'S AND AT SAME TIME STIMULATE EXPORT-LED GROWTH IN OECD ITSELF.

TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DIPLOMATIC NOTES, COMMITTEES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OECDP04881
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770057-0300
Format: TEL
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770232/aaaabcbq.tel
Line Count: 353
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e79f17c5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 OECD PARIS 4804
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3296320
Secure: OPEN
Status: NATIVE
Subject: OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION (XCSS): SUMMARY OF SECRETARIAT NOTE ON GLOBAL APPROACH
TAGS: ECON, OECD
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e79f17c5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009